

Message Text

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC POSTS IMMEDIATE

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FOLLOWING REPEAT USDEL SECRETARY IN PARIS SECTO 02007
SENT SECSTATE DATED MAY 26.

QUOTE

UNCLAS SECTO 02007

JL SN

PO PASS NSCE FOR SCOWCROFT AND NESSEN

E.O. 11652: GDS

TAGS:

SUBJ: IEA SPEECH

1. THE FOLLOWING TEXT OF THE SECRETARY'S IEA
SPEECH ISEMBARGOED: HOLD FOR RELEASE AT
1 PM MAY 27, 1975, PARIS TIME (8 AM EDT) MAY
NOT BE QUOTED FROM, PARAPHRASED OR USED IN ANY
WAY BEFORE THAT TIME.

2. TEXT: "TODAY WE BEGIN A WEEK OF DELIBERA-
TION ON THE CENTRAL PROBLEMS OF THE INDUSTRIAL
DEMOCRACIES: ENERGY, ECONOMIC PROSPERITY,
THE BUILDING OF A CONSTRUCTIVE RELATIONSHIP
WITH THE DEVELOPING NATIONS, AND ENSURING THE
SECURITY OF OUR OWN COUNTRIES.
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OF THESE, NO ISSUE IS MORE BASIC TO THE FUTURE
THAN THE CHALLENGE OF ENERGY. THE FUNDAMENTAL
ACHIEVEMENTS OF OUR ECONOMIES, AND THE MODERN
CIVILIZATION THEY SUSTAIN, HAVE BEEN BUILT

UPON THE READY AVAILABILITY OF ENERGY AT REASON-
ABLE PRICES.

THE ENERGY CRISIS OF 1973 FIRST BROUGHT HOME TO

US THE FULL IMPLICATIONS OF THE NEW REALITY OF
GLOBAL INTERDEPENDENCE. ENERGY STANDS AS THE
FIRST AND MOST FUNDAMENTAL OF THESE NEW
PROBLEMS; ITS MAGNITUDE COMPELS US TO COOPERATION.
WITHOUT THAT COOPERATION, WE RISK A RETURN TO
NATIONALISTIC RIVALRY AND ECONOMIC DECLINE COM-
PARABLE TO THE BITTER EXPERIENCE OF THE THIRTIES.
NOW ALL NATIONS -- RICH AND POOR, INDUSTRIALIZED
AND DEVELOPING -- MUST DECIDE WHETHER GROWING
INTERDEPENDENCE WILL FOSTER COMMON PROGRESS OR
COMMON DISASTER.

OUR OBJECTIVE MUST BE TO CONSTRUCT A WORLD
ENERGY SYSTEM CAPABLE OF PROVIDING, ON TERMS
FAIR TO ALL, THE FUELS NEEDED TO CONTINUE AND
EXTEND THE PROGRESS OF OUR ECONOMIES AND OUR
SOCIETIES. THE PATH THAT THE MEMBERS OF THIS
AGENCY HAVE CHOSEN BEGINS WITH CONSUMER SOLIDARITY.
BUT A DURABLE INTERNATIONAL SYSTEM MUST
ULTIMATELY ENCOMPASS, AND BE BUILT BY, BOTH THE
CONSUMERS AND THE PRODUCERS OF THE WORLD'S ENERGY.

THIS AGENCY HAS MADE REMARKABLE PROGRESS SINCE
THE WASHINGTON ENERGY CONFERENCE FIFTEEN MONTHS
AGO. WE RECOGNIZED AT WASHINGTON THAT THE
ENERGY CRISIS WAS THE MOST SEVER CHALLENGE TO
INDUSTRIAL CIVILIZATION SINCE THE SECOND WORLD
WAR. FOR A GENERATION NORTH AMERICA, EUROPE
AND JAPAN INCREASINGLY ALLOWED OIL IMPORTS TO
REPLACE THEIR OWN ENERGY PRODUCTION. IN 1950
THE INDUSTRIALIZED WORLD IMPORTED 5 PERCENT OF
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ITS REQUIREMENTS. IN 1960, THIS HAD GROWN TO
17 PERCENT; BY 1972, IT HAD REACHED 30 PERCENT.

THE EMBARGO AND PRICE RISES OF 1973 TAUGHT US
HOW VULNERABLE WE HAD BECOME. WE SAW THAT NEITHER
THE SUPPLY NOR THE PRICE OF A CENTRAL FACTOR IN
OUR ECONOMIES WAS ANY LONGER UNDER OUR CONTROL.
OUR WELL-BEING AND PROGRESS HAD BECOME HOSTAGE
TO DECISIONS IN WHICH WE COULD NOT TAKE PART.
AT THE WASHINGTON ENERGY CONFERENCE WE RECOG-
NIZED THAT ONLY COLLECTIVE ACTION COULD REDUCE
OUR EXCESSIVE DEPENDENCE ON IMPORTED OIL AND
RESTORE TO OUR GOVERNMENTS MASTERY OVER
OUR OWN ECONOMIES AND FOREIGN POLICIES.

SEPARATELY WE COULD NEVER CREATE CONDITIONS FOR LOWER OIL PRICES. NOR COULD ANY ONE OF US, EXCEPT AT EXORBITANT COST, DEFEND AGAINST A NEW EMBARGO. OUR SECURITY, OUR ECONOMIC GROWTH, OUR ROLE IN THE WORLD WERE AT RISK.

NOTHING SO VIVIDLY DEMONSTRATES THE COOPERATIVE VITALITY OF THE INDUSTRIAL DEMOCRACIES AS THE SPEED AND IMAGINATION WITH WHICH THIS AGENCY ACTED ON THESE CONCLUSIONS. IT ARTICULATED A REALISTIC STRATEGY FOR ATTACKING THE PROBLEMS OF PRICE AND SUPPLY AND LAUNCHED A SERIES OF MAJOR STEPS WHICH TOGETHER MAKE UP THE ELEMENTS OF A COMPREHENSIVE PROGRAM:

- TO SAFEGUARD AGAINST FUTURE ENERGY EMERGENCIES WE COMMITTED OURSELVES TO BUILD STOCKS OF OIL AND IN THE EVENT OF AN EMBARGO, TO CUT OUR CONSUMPTION BY AN EQUAL PERCENTAGE AND TO SHARE AVAILABLE OIL.
- FOR FINANCIAL SOLIDARITY, THE NATIONS COMPRISING THE OECD AGREED ON A FUND OF \$25 BILLION TO PROTECT AGAINST FINANCIAL DISRUPTION FROM OIL DEFICITS OR FROM ARBITRARY SHIFTS OF FUNDS BY THE PRODUCERS.

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- TO PREVENT AN INCREASE IN OUR VULNERABILITY OVER THE NEXT FEW YEARS, WE SET CONSERVATION GOALS AND AGREED ON PROCEDURES TO VERIFY THEIR IMPLEMENTATION.
- TO LESSEN OUR LONG-TERM VULNERABILITY, AGREED ON AN AMBITIOUS POLICY TO DEVELOP NEW ENERGY SOURCES THROUGH COOPERATION ON INDIVIDUAL DEVELOPMENT PROJECTS AND SAFEGUARDED BY A MINIMUM PRICE MECHANISM.
- TO DEVELOP THE TECHNOLOGY TO ACHIEVE INDEPENDENCE BY THE END OF THE CENTURY, WE ESTABLISHED A FAR-REACHING PROGRAM OF COOPERATION IN ENERGY RESEARCH AND DEVELOPMENT.
- FINALLY, WE RECOGNIZED THE REALITY OF THE NEW ECONOMIC AND POLITICAL CONDITIONS IN WHICH WE ARE ACTING. OVER THE LONG TERM, A STABLE WORLD ENERGY ECONOMY

MUST HAVE THE SUPPORT AND SERVE THE INTERESTS OF BOTH CONSUMERS AND PRODUCERS. THEREFORE WE IN THIS AGENCY HAVE COMMITTED OURSELVES TO SEEK A LONG-TERM COOPERATIVE ECONOMIC RELATIONSHIP WITH THE ENERGY-PRODUCING NATIONS. THIS AGENCY HAS BEEN THE PRINCIPAL FORUM FOR OUR PREPARATION FOR THE DIALOGUE WITH THE PRODUCERS.

IN THE SHORT TERM, OUR OBJECTIVE IN THIS AGENCY HAS BEEN TO RESTORE THE BALANCE IN THE INTERNATIONAL ENERGY MARKET. THROUGH RIGOROUS CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE SOURCES WE HAVE SOUGHT TO CREATE SUCH A SURPLUS OF CAPACITY THAT THE FLEXIBILITY OF DECISION OF THE PRODUCERS WILL BE REDUCED. AS OUR CONSERVATION POLICIES GAIN MOMENTUM, OUR DEPENDENCE ON UNCLASSIFIED

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IMPORTED OIL CAN AT LEAST BE KEPT CONSTANT, WHILE OUR ECONOMIES RECOVER FROM THE RECENT RECESSION. AS THE PROPORTION OF OUR ENERGY NEEDS FROM OUR OWN PRODUCTION INCREASES, THE PRODUCERS' MARKET WILL BEGIN TO SHRINK, FIRST RELATIVELY AND THEN IN ABSOLUTE TERMS. THE PRODUCERS WILL HAVE TO DISTRIBUTE EVER LARGER CUTBACKS AMONG THEMSELVES TO MAINTAIN THE HIGH PRICES, AND EVEN LARGER CUTBACKS TO SUPPORT AN INCREASE. INDIVIDUAL PRODUCERS -- ESPECIALLY THOSE WITH AMBITIOUS DEVELOPMENT, DEFENSE AND OTHER SPENDING PROGRAMS -- WILL BE UNDER PRESSURE TO INCREASE SALES OR, AT LEAST, TO REFUSE FURTHER PRODUCTION CUTS. THUS AT SOME POINT, IF THIS PROCESS SUCCEEDS, THE CARTEL WILL HAVE LOST THE EXCLUSIVE AND ARBITRARY CONTROL OVER PRICES.

WE ACKNOWLEDGED, FROM THE START, THAT OUR COUNTRIES VARY WIDELY IN ENERGY NEEDS AND POTENTIAL. SOME OF US HAVE MAJOR AND AS YET UNTAPPED OIL, GAS AND COAL RESERVES. OTHERS MUST RELY ALMOST ENTIRELY ON NUCLEAR ENERGY AND NEW TECHNOLOGY TO REDUCE NATIONAL DEPENDENCE ON IMPORTED OIL.

THIS VERY DIVERSITY GIVES A STRONG IMPETUS TO OUR COOPERATION. BECAUSE OF OUR INTERDEPENDENCE, WE ALL HAVE AN INTEREST IN EACH OTHER'S SUCCESS. THE ACTION EACH COUNTRY TAKES TO REDUCE ITS VULNERABILITY REDUCES THE VULNERABILITY OF US ALL. AND THE DECISION TO WORK COOPERATIVELY ASSURES AN EQUITABLE SHARING OF COSTS AND BENEFITS. THE

SACRIFICES OF ONE COUNTRY WILL NOT SIMPLY
BE OFFSET BY THE FAILURE OF OTHER NATIONS.

ALL ELEMENTS OF OUR STRATEGY ARE LINKED. PLANS
TO DEAL WITH AN EMERGENCY WILL PROVE EMPTY IF
WE PERMIT OUR DEPENDENCE ON IMPORTED OIL TO
MOUNT YEAR BY YEAR. EFFORTS TO DEVELOP A NEW
RELATIONSHIP WITH THE PRODUCERS WILL BE THWARTED,
IF WE FAIL TO CREAT THE OBJECTIVE CONDITIONS FOR
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A NEW EQUILIBRIUM THROUGH PROGRAMS OF CONSERVATION
AND THE DEVELOPMENT OF ALTERNATIVE SUPPLIES.

MANY OF THE BASIC BUILDING BLOCKS OF OUR STRATEGY
ARE IN PLACE. BUT MUCH REMAINS TO BE DONE. THIS
FIRST MINISTERIAL MEETING OF THE IEA FACES THE
FOLLOWING URGENT TASKS:

- TO IMPOSE DETERMINED CONSERVATION PRO-
GRAMS BEFORE OUR ECONOMIES BEGIN TO
EXPAND AGAIN;
- TO PUT INTO EFFECT STRONG NEW INCEN-
TIVES FOR DEVELOPING ALTERNATIVE
SOURCES;
- TO ACCELERATE RESEARCH ON LONG-TERM
DEVELOPMENT OF NON-CONVENTIONAL ENERGY
SUPPLIES; AND
- TO PREPARE THOROUGHLY FOR A DIALOGUE
WITH THE PRODUCERS.

LET ME DEAL WITH EACH OF THESE IN TURN.

CONSERVATION

THE CARDINAL OBJECTIVE OF ANY ENERGY PROGRAM MUST
BE THE LIMITATION OF GROWTH OF CONSUMPTION. HOW-
EVER MUCH WE AUGMENT OUR OWN ENERGY PRODUCTION,
THE MEDIUM TERM IT CANNOT KEEP PACE WITH THE EX-
TRAVAGANT ANNUAL CONSUMPTION INCREASES OF THE
1960S.

CONSERVATION WILL BE PARTICULARLY IMPORTANT OVER
THE NEXTFEW YEARS. UNTIL NORTH SEA AND ALASKAN
OIL AND ADDITIONAL COAL AND NUCLEAR POWER BECOME
AVAILABLE IN QUANTITY, IT IS THE ONLY MEANS WE
HAVE TO LIMIT OUR VULNERABILITY.

IN FEBRUARY WE AGREED THAT THE IEA COUNTRIES
SHOULD SAVE 2 MILLION BARRELS A DAY BY THE END OF
THIS YEAR. THE RECESSION HAS PUT US AHEAD OF
THAT TARGET. BUT THE REDUCTION IN CONSUMPTION

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CAUSED BY THE RECESSION HAS ALSO LED TO COMPLACENCY ABOUT THE NEED FOR A STRONG CONSERVATION POLICY. THIS HAS DELAYED -- IN AMERICA AND ELSEWHERE -- THE IMPOSITION OF CONSERVATION MEASURES THAT WILL ASSURE US OF FUTURE SAVINGS.

WE MUST RECOGNIZE THAT MOST OF OUR CURRENT SAVINGS RESULT NOT FROM POLICY DECISIONS BUT FROM THE REDUCTION IN OVERALL ECONOMIC ACTIVITY CAUSED BY THE RECESSION. DURING THIS SPRING'S DECLINE IN DEMAND FOR OIL, THE OIL PRODUCERS HAVE ABSORBED THE PRODUCTION CUTS REQUIRED TO KEEP SUPPLY IN LINE WITH DEMAND' LEAVING THE BASIC PRICE STRUCTURE INTACT. PRICE RISES HAVE BEEN DIFFICULT. BUT AS GROWTH RESUMES IN THE INDUSTRIAL ECONOMIES, AND WITH A NORMAL OR COLD WINTER, OUR DEMAND FOR OIL WILL INEVITABLY INCREASE. UNLESS WE CONVERT OUR RECESSION-INDUCED CONSERVATION TO POLICY-INDUCED CONSERVATION, THE PRODUCERS WILL BENEFIT FROM A STRONGER MARKET. WE WILL BECOME INCREASINGLY VULNERABLE TO PRICE RISES AND THE POLITICAL MANIPULATION OF ENERGY SUPPLY. INDEED, WE HAVE ALREADY BEEN WARNED OF NEW PRICE INCREASES. THESE WOULD BE ECONOMICALLY UNJUSTIFIED, FOR THERE IS MUCH SURPLUS PRODUCTION CAPACITY, INFLATION IS SLOWING, AND OIL PRICES ARE ALREADY AT HISTORIC HIGHS. YET THE MARKET REMAINS UNDER THE SUBSTANTIAL CONTROL OF THE PRODUCERS; IT WILL BECOME MORE SO UNLESS WE IMPOSE UPON OURSELVES A RIGOROUS ENERGY PROGRAM AND PUT IMMEDIATE IMPETUS BEHIND OUR CONSERVATION EFFORTS.

IN JANUARY PRESIDENT FORD SET A GOAL FOR THE UNITED STATES OF SAVING 2 MILLION BARRELS A DAY BY THE END OF 1977. LATER TODAY THE PRESIDENT WILL ANNOUNCE ADDITIONAL MEASURES TO DISCOURAGE THE CONSUMPTION OF IMPORTED OIL. TOGETHER WITH ACTIONS ALREADY TAKEN, THIS WILL BRING THE TOTAL ESTIMATED US SAVINGS TO 1.2 MILLION BARRELS A DAY BY THE END OF 1976. THE PRESIDENT HOPES THAT THE CONGRESS WILL JOIN HIM IN COMMON ACTION

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TO BRING ABOUT THE REMAINING SAVINGS NEEDED TO MEET OUR GOAL OF 2 MILLION BARRELS. BUT SHOULD THIS NOT PROVE POSSIBLE, HE IS PREPARED TO USE THE POWERS AVAILABLE TO HIM TO ASSURE THAT THE UNITED STATES DOES ITS PART IN THE COMMON CON-

SERVATION EFFORT.

WE BELIEVE IT ESSENTIAL THAT THE IEA DEVELOP CONSERVATION GOALS WHICH WILL PREVENT OUR VULNERABILITY FROM INCREASING DURING 1976 AND 1977. BECAUSE THE UNITED STATES IS RESPONSIBLE FOR HALF THE TOTAL OIL CONSUMPTION OF IEA MEMBERS, IT PLEDGES ITSELF TO HALF THE SAVINGS. IF TOGETHER WE CAN SAVE 4 MILLION BARRELS A DAY BY THE END OF 1977, WE CAN PREVENT OUR COLLECTIVE IMPORTS OF OIL FROM INCREASING ABOVE PRESENT LEVELS EVEN AFTER A PERIOD OF ECONOMIC GROWTH. OPEC'S ABILITY TO RAISE PRICES ARBITRARILY WILL HAVE BEEN DIMINISHED. AND WE WILL HAVE REDUCED OUR OIL PAYMENTS DEFICIT BY MANY BILLIONS OF DOLLARS. BUT SHOULD WE FAIL, THE COST WILL BE NOT ONLY HIGHER PRICES BUT ALSO INCREASING ECONOMIC AND POLITICAL VULNERABILITY.

ALTERNATIVE SOURCES
OVER THE LONGER TERM, OUR DEPENDENCE ON IMPORTED OIL WILL BECOME IRREVERSIBLE UNLESS WE RAPIDLY DEVELOP NEW ENERGY SOURCES -- OIL, GAS, COAL, NUCLEAR POWER.

THIS IS ALL THE MORE URGENT BECAUSE THE ECONOMIC COSTS OF THE CURRENT LEVEL OF HIGH PRICES WILL MULTIPLY OVER TIME. AT PRESENT, MUCH OF THE PRODUCERS' SURPLUS REVENUES ARE RECYCLED INTO INVESTMENTS IN THE INDUSTRIALIZED COUNTRIES. THIS IS WELCOME AS A SHORT-TERM ALLEVIATION OF

THE BALANCE-OF-PAYMENTS DRAIN. BUT IF CURRENT PRICES HOLD SOONER OR LATER THE IMPORTS OF PRODUCERS WILL RISE DRAMATICALLY. THERE WILL OCCUR AN INCREASING DRAIN OF GOODS AND SERVICES FROM UNCLASSIFIED

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OUR ECONOMIES.
IF WE ARE TO LESSEN OUR VULNERABILITY, ENERGY PRODUCTION FROM ALTERNATIVE SOURCES MUST, AT A MINIMUM, SUBSTANTIALLY REDUCE CURRENT IEA IMPORTS OF 25 MILLION BARRELS PER DAY. THREE ACTIONS ARE NEEDED TO ACCOMPLISH THIS:

WE MUST REMOVE OR MODIFY MANY OF OUR GOVERNMENTAL CONSTRAINTS ON ENERGY PRODUCTION. ENERGY DEVELOPMENT IS ENCUMBERED EVERYWHERE BY LEGAL, ENVIRONMENTAL AND REGULATORY LIMITATIONS. MANY OF THESE REFLECT VALID SOCIAL GOALS; OTHERS COULD USEFULLY BE REVIEWED OR MODIFIED OR ALTERNATIVE SAFEGUARDS COULD BE DEvised. WE

SHOULD USE THIS ORGANIZATION AS A CLEARINGHOUSE FOR IDEAS TO REMOVE UNNECESSARY OBSTACLES TO ALTERNATIVE ENERGY SOURCES.

WE MUST MAKE SURE THAT SUFFICIENT FINANCING IS AVAILABLE TO ASSURE ENERGY DEVELOPMENT. ENORMOUS AMOUNTS OF CAPITAL WILL BE REQUIRED -- PERHAPS A THOUSAND BILLION DOLLARS IN THE NEXT 20 YEARS. EACH COUNTRY SHOULD DECIDE THE ARRANGEMENTS BEST SUITED TO MEET THIS REQUIREMENT BUT WE SHOULD PROCEED NOW TO ESTABLISH AN IEA FRAMEWORK FOR PROJECT-BY-PROJECT COOPERATION, INCLUDING JOINT GUARANTEES OR OTHER FINANCIAL ASSISTANCE TO LARGE COOPERATIVE PROJECTS.

WE MUST ENSURE THAT OUR ENERGY INVESTMENTS ARE PROTECTED AGAINST DISRUPTIVE COMPETITION. FOR MUCH OF THE PERSIAN GULF PRODUCTION COSTS

ARE ONLY ABOUT 25 CENTS A BARREL. MOST OF THE MAJOR CONTINENTAL ENERGY SOURCES -- NEW ALASKAN NORTH SLOPE OIL, THE US OUTER CONTINENTAL SHELF, NORTH SEA OIL, NUCLEAR POWER EVERYWHERE -- WILL BE MANY TIMES MORE COSTLY TO PRODUCE. IF THE CARTEL DECIDES TO UNDERCUT ALTERNATIVE SOURCES BY TEMPORARY PREDATORY PRICE-CUTTING, INVESTMENT IN ALTERNATIVE SOURCES MAY BE INHIBITED

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OR ABANDONED. THE PRODUCER'S PRICING POLICIES COULD THUS KEEP US IN A PERMANENT STATE OF DEPENDENCE, AND WE WOULD HARDLY HAVE ASSURANCE THAT THE PRICE WOULD NOT BE RAISED AGAIN ONCE OUR DEPENDENCE WAS CONFIRMED.

THIS IS WHY WE IN THE IEA HAVE AGREED IN PRINCIPLE ON THE SAFEGUARD PRICE MECHANISM. ONLY IF CONSUMERS DEVELOP MASSIVE NEW ENERGY SOURCES, WILL THE OIL PRODUCERS LOSE THEIR ABILITY TO SET PRICES AT HIGH, ARTIFICIAL LEVELS. BUT THESE SOURCES WILL NOT BE DEVELOPED IF PRODUCERS RETAIN THE ABILITY TO THWART OUR ENERGY PROGRAMS BY TEMPORARY, PREDATORY PRICE CUTS. A MINIMUM SAFEGUARD PRICE -- WELL BELOW THE CURRENT WORLD PRICE LEVEL -- CAN HELP ENSURE THAT THESE ALTERNATIVE SOURCES WILL BE DEVELOPED.

WE ARE OBVIOUSLY NOT PROPOSING A GUARANTEED PRICE FOR OPEC. ON THE CONTRARY, IF OUR POLICY SUCCEEDS, AND AS LARGE QUANTITIES OF NEW ENERGY BECOME AVAILABLE, OPEC'S SELLING PRICE COULD FALL BELOW THE PROTECTED LEVEL. THE

MINIMUM SAFEGUARD PRICE CAN BE IMPLEMENTED IN A VARIETY OF WAYS -- THROUGH TARIFFS, QUOTAS OR VARIABLE LEVIES. THE DIFFERENCE BETWEEN THE WORLD PRICE AND THE HIGHER DOMESTIC PRICE WOULD THUS ACCRUE TO OUR GOVERNMENTS IN THE FORM OF IMPORT TAXES AND LEVIES. THESE COULD BE USED FOR SOCIAL PROGRAMS OR REBATES OR OTHER NATIONAL PROGRAMS OF OUR OWN CHOOSING. IN SHORT, THE MINIMUM SAFEGUARD PRICE IS NOT A DEVICE FOR MAINTAINING ARTIFICIALLY HIGH WORLD OIL PRICES. ON THE CONTRARY, IT IS A DEVICE FOR MAKING SURE THAT THEY COME DOWN. AND IT CAN BE DESIGNED TO YIELD THE BENEFITS FROM SUCH REDUCTION TO THE INDUSTRIAL COUNTRIES.

THE AGREED DEADLINE FOR ELABORATION OF THE IEA OVERALL ALTERNATIVE SOURCES PROGRAM IS JULY 1. WE MUST MEET IT. PRESIDENT FORD HAS ASKED ME UNCLASSIFIED

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TO EMPHASIZE THE URGENCY OF THIS TASK. WITHOUT CLEAR INCENTIVES FOR MAJOR NEW ENERGY INVESTMENTS RAPIDLY PUT INTO PLACE, IEA COUNTRIES CAN NEVER HOPE TO REDUCE THEIR CURRENT EXCESSIVE VULNERABILITY.

NUCLEAR POWER
IN THE QUEST FOR GREATER ENERGY SELF-RELIANCE, NUCLEAR POWER WILL BE CRITICAL. BY 1985 THE EUROPEAN COMMUNITY HOPES THAT NUCLEAR POWER WILL GENERATE ABOUT ONE-QUARTER OF ITS ELECTRICITY; JAPAN A THIRD; THE US PERHAPS A THIRD. BUT THERE ARE MAJOR PROBLEMS ASSOCIATED WITH THE ORDERLY, SAFE AND PRUDENT INTRODUCTION OF THIS IMPORTANT NEW TECHNOLOGY.

IN ALL OUR COUNTRIES, THE GROWTH OF NUCLEAR POWER PRODUCES BOTH HOPE AND ANXIETY. ON THE ONE HAND, WE RECOGNIZE IT AS THE ONLY POTENTIAL LARGE-SCALE ENERGY SUBSTITUTE FOR THE INEVITABLE EXHAUSTION OF SUPPLIES OF OIL AND GAS WHICH WOULD OCCUR BY THE END OF THIS CENTURY. ON THE OTHER HAND, THERE ARE INCREASING DOUBTS THAT SUFFICIENT NUCLEAR FUEL WILL BECOME AVAILABLE. ENORMOUS AMOUNTS OF CAPITAL WILL BE NEEDED TO BUILD REACTORS, SEVERELY STRAINING EXISTING CAPITAL MARKETS. AND WE ALL KNOW OF THE QUESTIONS RAISED BY THE PUBLIC AND SOME LEGISLATORS REGARDING THE ENVIRONMENTAL IMPACT OF THE WIDESPREAD CONSTRUCTION OF NUCLEAR FACILITIES.

THUS WE MUST MOVE URGENTLY AND DECISIVELY WITHIN

THE IEA THE FOLLOWING PROGRAM:

- WE MUST ENSURE THAT NEEDED URANIUM ENRICHMENT FACILITIES ARE CONSTRUCTED ON SCHEDULE. IN THIS REGARD, THE UNITED STATES RECOGNIZES ITS RESPONSIBILITY TO CONTINUE PROVIDING NUCLEAR FUEL UNDER LONG TERM CONTRACT. OUR POLICY IS TO BRING INTO BEING --

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PREFERABLY BY PRIVATE INDUSTRY, BUT BY THE FEDERAL GOVERNMENT IF NECESSAR -- ADDITIONAL ENRICHMENT CAPACITY WHICH WILL ENSURE ADEQUATE FUTURE SUPPLY. NEGOTIATIONS ARE NOW UNDERWAY WITH A POTENTIAL PRIVATE SOURCE. THESE DISCUSSIONS WILL PROCEED QUICKLY, AND BY JUNE 30 THE PRESIDENT WILL DECIDE WHICH COURSE OF ACTION, PRIVATE OR PUBLIC, IS IN THE BEST INTERESTS OF OUR OWN COUNTRY AND THOSE ABROAD WHO RELY ON US. WE WILL THEN BE IN A POSITION TO ACCEPT LONG-TERM ORDERS.

- WE MUST INTENSIFY OUR JOINT EFFORTS TO MAP AND ANALYZE FUTURE DEMAND AND SUPPLY OF FUEL, INCLUDING ASSESSING THE AVAILABILITY OF URANIUM RESOURCES.

- WE SHOULD JOINTLY PROJECT THE CAPITAL REQUIREMENTS OF THE NUCLEAR SECTOR FOR THE NEXT TEN YEARS AND CONSIDER HOW OUR GOVERNMENTS, INDIVIDUALLY AND COOPERATIVELY, CAN ASSIST IN MEETING THOSE REQUIREMENTS.

- WE SHOULD EVALUATE THE ECONOMIC NECESSITY PLANT REQUIREMENTS, AND SAFETY IMPLICATIONS OF PLUTONIUM REPROCESSING, RECYCLING AND STORAGE.

- WE MUST UNDERTAKE INTENSIVE EFFORTS TO IMPROVE THE SAFETY AND SECURITY OF NUCLEAR MATERIALS, EQUIPMENT, AND OPERATION.

- AND FINALLY, WE SHOULD DEVELOP BALANCED INFORMATION PROGRAMS TO BRING PERCEPTIONS OF THE RISKS AND BENEFITS OF NUCLEAR ENERGY IN LINE WITH REALITY.

SEVERAL OF THE TECHNICAL ISSUES INVOLVED ARE

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ALREADY BEING DEALT WITH BY THE OECD'S NUCLEAR ENERGY AGENCY. THAT WORK SHOULD OF COURSE CONTINUE.

RESEARCH AND DEVELOPMENT

BEYOND THE NEXT DECADE, A CENTRAL ISSUE WILL BE HOW TO CREATE NEW, NON-CONVENTIONAL ENERGY SOURCES. IT IS IN DEVELOPING THESE NEW SOURCES THAT IEA'S PROGRAM OF COOPERATION MAY MAKE ITS MOST IMPORTANT AND LASTING CONTRIBUTION.

FOR THE LONG-RANGE ENERGY FUTURE DEPENDS NOT ON THE PERSIAN GULF, OR THE NORTH SEA, OR ALASKA. IT DOES DEPEND ON WHAT WE DO IN OUR LABORATORIES TO MAKE BETTER USE OF CONVENTIONAL NEWER SOURCES AND TO DEVELOP MORE EXOTIC SOURCES. THE ADVANCED NATIONS HAVE VAST SCIENTIFIC AND TECHNICAL CAPABILITIES. OVER THE PAST YEAR-AND-A-HALF IEA MEMBER COUNTRIES HAVE EXPANDED THEIR NATIONAL PROGRAMS IN ENERGY RESEARCH AND DEVELOPMENT. IN THE UNITED STATES OUR NEW ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION WILL SPEND MORE THAN TWO BILLION DOLLARS IN THE FISCAL YEAR BEGINNING NEXT MONTH. AMERICAN INDUSTRY WILL INVEST FAR MORE THAN THAT.

THE UNITED STATES PROGRAM EMPHASIZES IMPROVING THE EFFICIENCY OF ENERGY GENERATION, TRANSPORTATION AND USE; IMPROVING THE RECOVERY OF OIL AND NEW USES OF COAL; AND CONVERTING COAL TO SYNTHETIC OIL AND GAS. THESE PROJECTS ARE DESIGNED TO PRODUCE MAJOR ADVANCES IN ENERGY PRODUCTION AND USE IN THIS CENTURY. FOR THE PERIOD BEYOND THE YEAR 2000, ONLY THREE KNOWN POTENTIAL SOURCES OF ENERGY HAVE VIRTUALLY INFINITE POTENTIAL FOR EXPANSION: THE BREEDER REACTOR, NUCLEAR FUSION, AND SOLAR ENERGY. THESE ALL HAVE A HIGH PRIORITY IN THE US PROGRAM.

THE IEA PROGRAM IN THESE FIELDS REFLECTS THE CONVICTION THAT TECHNICAL ADVANCE WILL BE ACCELERATED THROUGH COOPERATIVE EFFORTS AND

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FACILITATE THE FLOW OF INFORMATION AND KNOWLEDGE. WE HAVE DECIDED TO LINK OUR NATIONAL PROGRAMS THROUGH COORDINATED PLANNING, INTENSIFIED INFORMATION EXCHANGE, AND THROUGH JOINT PROJECTS WHICH POOL OUR CAPITAL, INDUSTRIAL SKILLS, AND TECHNOLOGY.

THE EARLY RESULTS ARE PROMISING. WE HAVE MOVED FORWARD RAPIDLY ON NINE JOINT PROJECTS RANGING FROM ENERGY CONSERVATION TO NUCLEAR POWER. IMPORTANT PROGRAMS IN COAL PROCESSING WHICH INVOLVE SUBSTANTIAL JOINT INVESTMENTS OF MONEY AND MAN-POWER, ARE ABOUT TO BEGIN.

BUT A SUSTAINED PROGRAM OF COOPERATION REQUIRES MUCH MORE. WE HAVE IDENTIFIED THE EXISTING AND POTENTIAL TECHNOLOGIES THAT WILL HAVE A CRITICAL IMPACT ON THE FUTURE. WE MUST NOW ASCERTAIN WHEN THESE TECHNOLOGIES CAN BE IMPLEMENTED, WHAT THEIR PRODUCTION POTENTIAL IS, AND WHICH ARE BEST SUITED TO LARGE-SCALE JOINT PROJECTS.

AS OUR COOPERATION EXPANDS, PROJECTS WILL INCREAS-INGLY OPERATE AT THE FRONTIER OF TECHNOLOGY. WE WILL EACH HAVE TO RECOGNIZE THAT WE CANNOT RETAIN THE MOST PROMISING PROJECTS SOLELY FOR OUR OWN NATIONAL PRUPOSES. WE MUST ESTABLISH GUIDE-LINES WHICH WHILE TAKING ACCOUNT OF UNDERSTAND-

ABLE CONCERN OVER THE SHARING OF INFORMATION AND THE POSSIBLE LOSS OF COMMERCIAL ADVANTAGE, GIVE IMPETUS TO MULTILATERAL COOPERATION.

THEREFORE, I PROPOSE THAT OUR LEADING RESEARCH AND DEVELOPMENT OFFICIALS MEET IN EARLY AUTUMN AT THE SPECIAL SESSION OF THE GOVERNING BOARD. THEIR GOAL WOULD BE TO COMPLETE THE DESIGN OF A JOINT ENERGY RESEARCH AND DEVELOPMENT PROGRAM THAT WILL RECEIVE HIGH PRIORITY IN ALL OF OUR NATIONAL PLANNING.

RELATIONS WITH PRODUCERS
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THE FINAL ELEMENT OF OUR ENERGY STRATEGY IS THE DEVELOPMENT OF A COOPERATIVE RELATIONSHIP WITH PRODUCERS. WE MUST FACE THE FACT THAT THE PRODUCERS HAVE THE ABILITY NOW AND FOR SOME TIME TO COME, TO DETERMINE THE SUPPLY AND THE PRICE OF OUR OIL. BUT THE DECISIONS WE MAKE NOW ON CONSERVATION AND ALTERNATIVE SOURCES WILL DETERMINE WHETHER IN THE FUTURE PRICES WILL BE SET BY POLITICAL DECISION OR ECONOMIC COMPETITION.

YET THERE EXISTS NO INSTITUTION OR AGREED FRAME-
WORK, IN WHICH THE EXERCISE OF THE UNDOUBTED POWERS OF BOTH GROUPS CAN BE SUBJECT TO DISCUSSION AND MUTUAL ACCOMMODATION.

SINCE ITS START, IEA HAS BEEN COMMITTED TO THE SEARCH FOR A NEW RELATIONSHIP WITH THE PRODUCERS WHICH WOULD TAKE INTO ACCOUNT THE NEEDS AND ASPIRATIONS OF BOTH SIDES. THE SOLIDARITY WE HAVE ACHIEVED IN IEA IS A NECESSARY CONDITION FOR BUILDING THAT BROADER STRUCTURE.

BEFORE THE RECENT PREPARATORY CONFERENCE BETWEEN PRODUCERS AND CONSUMERS THE IEA AGREED ON SEVERAL POSSIBLE AREAS FOR JOINT ACTION BY PRODUCERS AND CONSUMERS. THESE REMAIN FRUITFUL TOPICS FOR DIALOGUE.

FIRST, WE SHOULD DISCUSS THE MANAGEMENT OF FINANCIAL RECYCLING. BOTH PRODUCERS AND CONSUMERS HAVE AN INTEREST IN THE EFFECTIVE RE-INVESTMENT OF SURPLUS FUNDS.

SECOND, WE SHOULD JOINTLY EXAMINE THE INCOMING INVESTMENT POLICIES OF THE INDUSTRIALIZED COUNTRIES. THE OIL PRODUCERS NEED ATTRACTIVE OUTLETS FOR THEIR REVENUES; THE INDUSTRIAL COUNTRIES, WHILE THEY WELCOME NEW INVESTMENT, WILL WANT TO RETAIN CONTROL OF THOSE SECTORS OF THEIR ECONOMIES WHICH THEY CONSIDER CRITICAL.

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THIRD, WE CAN EXAMINE COOPERATIVE EFFORTS TO ACCELERATE THE DEVELOPMENT PROGRAMS IN PRODUCER COUNTRIES. NEW INDUSTRIES CAN BE ESTABLISHED, COMBINING THE TECHNOLOGY OF THE INDUSTRIALIZED WORLD WITH THE ENERGY AND CAPITAL OF THE PRODUCERS. FERTILIZER IS A PROMISING EXAMPLE.

FOURTH, THE OIL PRODUCING COUNTRIES AND THE COMING INVESTMENT POLICIES OF THE INDUSTRIAL CONSUMING COUNTRIES SHARE RESPONSIBILITY FOR EASING THE PLIGHT OF THE POOREST NATIONS. INTERNATIONAL DEVELOPMENT EFFORTS HAVE BEEN UNDERMINED BY THE CURRENT ECONOMIC CRISIS; HIGH PRICES FOR ENERGY HAVE SHATTERED THE HOPES OF DEVELOPING NATIONS FOR INDUSTRIALIZATION; HIGH PETROCHEMICAL COSTS HAVE MADE NEEDED FERTILIZER PROHIBITIVELY EXPENSIVE AND COMPOUNDED THE DIFFICULTIES OF PRODUCING ENOUGH FOOD TO FEED THE HUNGRY. SPECIAL EFFORTS MUST BE MADE ON BEHALF OF THOSE MOST SERIOUSLY AFFECTED. THE NEWLY RICH PRODUCING NATIONS HAVE AN OBLIGATION TO JOIN US IN THIS EFFORT.

AND FINALLY, THERE IS AN OBVIOUS NEED FOR A FORUM IN WHICH PRODUCERS AND CONSUMERS CAN DISCUSS THE DIFFICULT ISSUES OF OIL PRICES AND SECURITY OF SUPPLY. THIS DIALOGUE IS NOT OF COURSE A SUBSTITUTE FOR OUR OWN EFFORTS ON CONSERVATION AND THE DEVELOPMENT OF NEW SUPPLIES. BUT WHILE WE CANNOT PROTECT THESE VITAL INTERESTS ONLY BY DISCUSSIONS WITH PRODUCERS, BOTH CONSUMERS AND PRODUCERS CAN BENEFIT FROM A SERIOUS DIALOGUE REGARDING THEIR RESPECTIVE INTERESTS AND OBJECTIVES.

IT HAS BECOME CLEAR -- AS A RESULT OF THE APRIL PREPARATORY MEETING -- THAT THE DIALOGUE BETWEEN THE PRODUCERS AND CONSUMERS WILL NOT PROGRESS UNLESS IT IS BROADENED TO INCLUDE THE GENERAL ISSUE OF THE RELATIONSHIP BETWEEN DEVELOPING AND DEVELOPED COUNTRIES.
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LE IN THE IEA HAVE NO REASON TO RECOIL FROM A DISCUSSION OF ALL THE ISSUES OF CONCERN TO DEVELOPING COUNTRIES. I RECENTLY SET FORTH MY COUNTRY'S IDEAS ON RAW MATERIALS AND COMMODITIES PROBLEMS; I PROPOSED THAT THESE NOW BE ADDRESSED IN THE MULTILATERAL TRADE NEGOTIATIONS, IN INDIVIDUAL COMMODITY GROUPS, AND IN THE WORLD BANK. I SHALL PUT FORWARD FURTHER PROPOSALS AT THE OECD TOMORROW. I HOPE THAT THESE IDEAS AS WELL AS PROPOSALS PUT FORWARD BY OTHERS CAN HELP OVERCOME THE IMPASSE IN THE PRODUCER-CONSUMER DIALOGUE.

THE UNITED STATES IS PREPARED TO HAVE THE PREPARATORY MEETING RECONVENE IN PARIS IN THE SAME FORMAT AS BEFORE. IN ORDER TO CARRY ITS WORK FORWARD COMMISSIONS SHOULD BE CREATED TO DEAL WITH CRITICAL AREAS SUCH AS ENERGY, PROBLEMS OF THE MOST SERIOUSLY AFFECTED NATIONS, AND RAW MATERIALS. EACH COMMISSION WOULD COVER THE RANGE OF ISSUES UNDER ITS HEADING: FINANCE, INVESTMENT, TRADE, PRODUCTION. THE COMMISSIONS COULD MEET CONSECUTIVELY OR SIMULTANOUSLY BUT WITHOUT AN ARBITRARY DEADLINE FOR CONCLUDING THEIR WORK. NOR WOULD THEY SUPPLANT THE ALREADY SUBSTANTIAL WORK WHICH IS BEING DONE ELSEWHERE. RATHER THEY WOULD MONITOR, SUPPLEMENT AND ORIENT THAT WORK AND GIVE IT NEEDED IMPETUS. MEMBERSHIP IN THESE COMMISSIONS SHOULD BE LIMITED IF THEY ARE TO BE EFFECTIVE. WE SUGGEST THAT THIS BE DECIDED BY OBJECTIVE CRITERIA. IN ENERGY, FOR EXAMPLE, COUNTRIES EXPORTING OR IM-

PORTING MORE THAN A CERTAIN VOLUME OF ENERGY IN THE WORLD MARKET SHOULD BE MEMBERS. ON THE COMMISSION DEALING WITH THE MOST SERIOUSLY AFFECTED COUNTRIES, THOSE WITH THE LOWEST PER CAPITA INCOME WOULD PARTICIPATE ALONG WITH TRADITIONAL AND NEW AID DONORS. THE COMMISSION ON COMMODITIES COULD INCLUDE THE PRINCIPAL EXPORTERS AND IMPORTERS OF FOOD AND NON-OIL RAW MATERIALS.

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WE SUGGEST THAT THE IEA DISCUSS THESE CONCEPTS AND COORDINATE OUR CONTACTS WITH THE COUNTRIES THAT ATTENDED THE APRIL MEETING, AND ESPECIALLY WITH FRANCE AS THE CONVENING COUNTRY TO DETERMINE WHEN AND HOW THE PREPARATORY MEETING COULD BE REASSEMBLED.

CONCLUSION

THIS AGENCY HAS ALREADY DEMONSTRATED WHAT CAN BE ACCOMPLISHED IF NATIONS HAVE THE VISION TO PERCEIVE THEIR INTEREST AND THE WILL TO ACT UPON IT. WE HAVE SET OURSELVES IMPORTANT GOALS INCLUDING BROADENING THE PATTERN OF COOPERATION ALREADY ESTABLISHED HERE. WE ARE CALLED UPON TO MAKE CONCRETE PROGRESS; THIS WILL REQUIRE THE READINESS TO LOOK BEYOND OUR OWN CONCERNS AS INDUSTRIALIZED NATIONS TO THE BROADER NEEDS OF ALL MANKIND.

THE PROGRESS WE HAVE MADE IN A SHORT FIFTEEN MONTHS SHOULD GIVE US GREAT HOPE FOR THE FUTURE. GOETHE SAID THAT "THE WEB OF THIS WORLD IS WOVEN OF NECESSITY AND CHANGE." WE STAND AT A POINT WHERE THOSE STRANDS INTERTWINE. WE MUST NOT REGARD NECESSITY AS CAPRICIOUS NOR LEAVE CHANGE TO CHANCE. NECESSITY IMPELS US TO WHERE WE ARE BUT SUMMONS US TO CHOOSE WHERE WE GO. OUR INTERDEPENDENCE WILL MAKE US THRIVE TOGETHER OR DECLINE TOGETHER. WE CAN DRIFT, OR WE CAN DECIDE. WE HAVE NO EXCUSE FOR FAILURE. WE HAVE IT IN OUR POWER TO BUILD A BETTER FUTURE." KISSINGER

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